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O 102222Z JUN 74 ZFF4 FM SECSTATE WASHDC TO WHITE HOUSE

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TAGS: IT, PINT

SUBJECT: RESIGNATION OF ITALIAN GOVERNMENT

WHITE HOUSE PASS SALZBURG

- 1. FOLLOWING IS PRELIMINARY INR ESTIMATE OF PROSPECTS FOR SUCCESSION TO PREMIER RUMOR'S 12-WEEK OLD CENTER-LEFT COALITION WHICH RESIGNED TONIGHT.
- 2. RUMOR GOVERNMENT WILL STAY ON IN CARETAKER CAPACITY UNTIL SUCCESSOR GOVERNMENT IS FORMED (ITALIAN GOVERNMENT CRISES GENERALLY LAST FROM 4 TO 7 WEEKS).
- 3. THE CRISIS WAS MADE INEVITABLE WHEN THE COALITION PARTIES, AND THE CHRISTIAN DEMOCRATS AND SOCIALISTS IN PARTICULAR, FAILED TO RECONCILE THEIR DIFFERENCES OVER THE TYPE AND EXTENT OF THE AUSTERITY MEASURES NECESSARY TO MEET ITALY'S WORST POSTWAR FINANCIAL AND ECONOMIC CRISIS. THE CHRISTIAN DEMOCRATS INSISTED ON THE NEED TO CONTAIN INTERNAL DEMAND AND REDUCE INFLATION. THE SOCIALISTS OPPOSED DEFLATIONARY MEASURES WHICH MIGHT RESULT IN INCREASED UNEMPLOYMENT.
- 4. THE PARLIAMENTARY ARITHMETIC IS SUCH THAT, IF THE CONFIDENTIAL $\,$

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SOCIALISTS REFUSE EITHER TO ENTER OR SUPPORT A SUCCESSOR

GOVERNMENT, THE DOMINANT CHRISTIAN DEMOCRATS WILL HAVE THREE CHOICES AHEAD OF THEM:

- --FORM AN ALL-CHRISTIAN DEMOCRATIC MINORITY CABINET WHICH CAN GET THE SUPPORT OF THE SMALLER CENTER DEMOCRATIC PARTIES (SOCIAL DEMOCRATS, REPUBLICANS, AND LIBERALS);
- --ATTEMPT TO PUT TOGETHER A COALITION CABINET WITH THOSE SAME CENTER PARTIES; OR
- --DISSOLVE PARLIAMENT AND CALL FOR EARLY GENERAL ELECTIONS.
- 5. OF THE THREE OPTIONS, THE LAST IS THE LEAST LIKELY. EITHER OF THE OTHER TWO WOULD PROBABLY BE OF SHORT AND DIFFICULT DURATION, GIVEN BOTH THE NARROW MARGIN THAT SUCH GOVERNMENTS WOULD COMMAND IN PARLIAMENT (A 17-VOTE MAJORITY IN THE CHAMBER AND A 5-VOTE MAJORITY IN THE SENATE) AND THE INTRACTABILITY OF THE ECONOMIC AND FINANCIAL PROBLEMS THAT TRIGGERED THE CURRENT CRISIS IN THE FIRST PLACE.
- 6. THE FORMATION OF A GOVERNMENT WITH COMMUNIST PARTICIPATION, AS HAS BEEN RUMORED IN VARIOUS QUARTERS RECENTLY, IS COMPLETELY OUT OF THE QUESTION UNDER PRESENT CIRCUMSTANCES. SISCO

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